RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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LETTER 1081 **Oct. 30, 1991**

WRITING TWO WAYS: I write these Letters two ways. One way is via the Dow Theory, my PTI and a strict interpretation of the technical position of the market. The other way is simply by stating what I see and what I think.

My technical market studies still remain on the bull side. But what I think and what I see is hardly bullish. Look, we've got massive federal deficits, which "should be" wildly stimulative to the economy. But this economy is so debt-laden that huge deficits don't stimulate any more -- they just squeeze. In the meantime, the interest on the federal debt keeps climbing. In the 1960s 23% of all the federal tax receipts went to paying the interest on the federal debt. Today, a whopping 58% of all federal tax receipts go to paying off the interest. Extrapolating, in the year 2000, just nine years from now, ALL federal tax receipts will go to just paying off the interest on the federal debt. We're eating ourselves up alive -- with debt. And I honestly don't know how we're going to get off this insidious path (so far, Washington's not even trying).

"Inflate or die." I continue to believe that these are the choices for the US. For the last year, the US economy has been dying. And now the inflationists are coming forth again. Suddenly, all the politicians in both parties are urging "tax cuts for the middle class." It's become a regular chorus. Mr. Bush, worried (as always) about re-election, joins the chorus while pushing again for a cut in the capital gains tax. Meanwhile, the Fed reports in their monthly "beige book" that the economy is going nowhere.

The markets don't love it. At the mere mention of a tax cut (with accompanying higher deficits, of course), bonds sink, and the long bond pushes above 8% again (8% in a recession?!). Gold advances for four weeks in a row, and the CRB Commodity Futures Index rises to a six-month high. To top it off, the latest government figures indicate that inflation is running at almost 5%. So I ask myself, if inflation is near 5% after two years of recession -- what happens if this economy ever revives?

THE MARKET: Is the stock market worried? Well, not really. How do I know? Easy, just look at the current wild valuations. Dow earnings are down 49.3% from a year ago while Dow dividends are down 8.8% from a year ago. Yet *Barron's* shows the Dow now selling at an astronomical 29.1 times earnings while yielding only 3.09%. Meanwhile, the earnings yield (earnings divided by price) is down to a shocking 3.70%. Talk about extremes in overvaluation -- we're there, baby.

	Last Week	Prev. Week	Year Ago Week
DJ Ind.-P/E	29.1	27.0	12.0
Earns Yield, %	3.43	3.70	8.35
Earns, $	103.11	113.85	203.52
Divs Yield, %	3.09	3.00	4.17
Divs, $	92.72	92.18	101.63
Mkt to Book, %	225.68	231.10	190.89
Book Value, $	1331.52	1331.52	1276.19

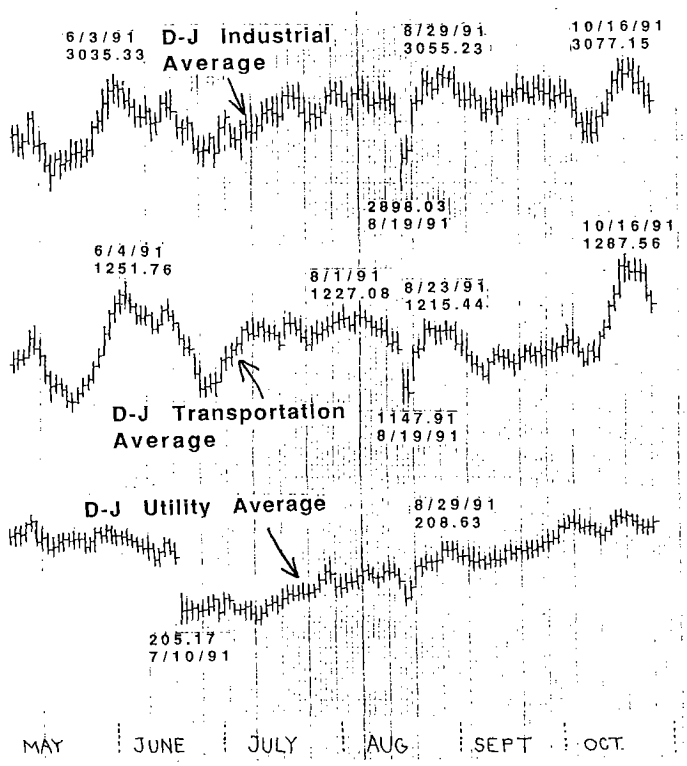
The market action of October 15 and 16 generated a great deal of excitement, because those days saw Transports breaking out above their June 4 peak and Industrials rising to new all-time highs. I received calls from all ports -- from *Barron's* to local and national TV stations and newspapers --all asking the meaning of the moves. Here is what I said. The October 15-16 action certainly represented an upside confirmation, and on the face of it that was a plus for the market. However, three items must also be considered at this time.

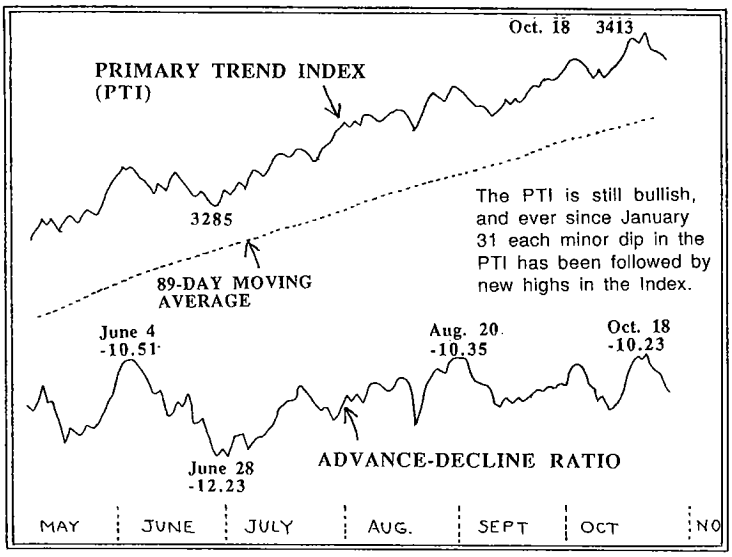
Oct. 18 DJIA 3077.14; PTI 3415; A-D Ratio -10.23
Oct. 11 DJIA 3004.92; PTI 3394; A-D Ratio -11.01
Dow Yield: 3.09%; Dow P/E: 29.1; DowPow: 41
Dow 200-day MA: 2928; Dow 30-day MA: 3012
Dow Times Book Value: 2.27; PTI 89-day MA: 3354
Percentage of Undervalued Blue-chips: 12%
Stock Summation Index: 1493 (Bearish)
Bond Summation Index: -137 (Bearish)

(1) This bull market is 17 years old, and it has been seeing upside confirmations for 17 years. Each upside confirmation in a bull market contains less validity than the last -- until finally there will be an upside confirmation which will be the final one -- preparatory to the next primary bear market (when that happens know-nothings will complain that "the Dow Theory doesn't work any more," so I want my subscribers to be ready for that one).

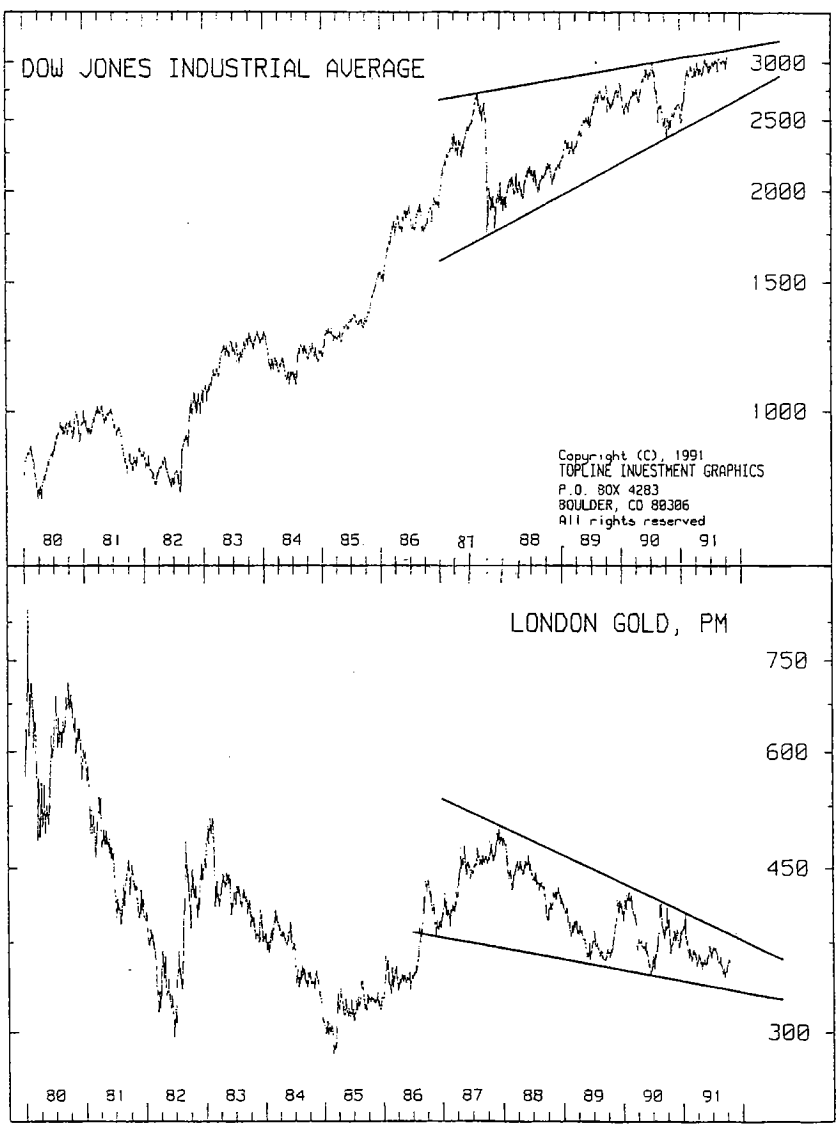
(2) From a Dow Theory standpoint, the overriding consideration is always VALUE, and from this standpoint, regardless of upside confirmations, this market is on increasingly thin ice. I've talked about values ad nauseum, so there's no need to go over the fact that this market is now extremely overvalued (and I'm not impressed with the argument that many secondary stocks are still undervalued and represent "great buys").

(3) The bull market high for the Transportation Average was 1532.01 recorded back on October 5, 1989. The October 16 Transport breakout was a plus, but Transports did not rise to all-time highs, so it was not a primary upside confirmation comparable to the October 16 new all-time high in the Dow. Thus, the upside action of October 15-16 leaves a lot to be desired from the standpoint of Dow Theory.





PRIMARY TREND INDEX: One of the helpful characteristics of my PTI is that it doesn't give signals very often. When it does, those signals tend to hold for many months, sometimes for years. The PTI turned bullish last January 31 when it crossed above its 89-day moving average (MA). When this market finally turns bearish, we will see the reverse occur, as the PTI breaks below its MA. If and when that happens, my guess is that we'll be in for a long and costly bear market. It hasn't happened yet.



ECONOMICS: The Dow and most of the big composite stock averages are now selling at extremes of overvaluation. And for months optimists and pessimists have been voicing their opposing views. The optimists are justifying the Dow selling at a current rarefied 29 times earnings on the basis of an expected sharp increase in corporate profits next year, maybe a pick-up of as much as 30% to 40% in earnings over this year.

The pessimists are talking about only a slight increase in next year's earnings over this year's disappointing earnings. Almost no one is talking about earnings next year being actually below this year's poor earnings.

So the only real surprises next year would be either a massive increase in earnings (bullish) or an actual drop in '92 earnings below this year's poor earnings, which would be extremely bearish.

The question: since the function of the market is to discount the future, isn't it logical to conclude that the current market is discounting a big pickup in the nation's business to occur early next year? And my answer is, "Well, on the face of it that would appear to be the rationale behind the recent new highs in the Dow, the NYSE Financial Index, the Amex Stock Average, the NASDAQ Composite, the NMS Composite and the S&P MidCap 400 (all of which hit new highs on October 16).

But wait. Didn't the Dow surge to within 10 points of its all-time high in 1968, just before a precipitous collapse? Didn't the Dow roar to record highs September 1929, just before the greatest bear market and depression in American history? Didn't the Dow rush to record highs in October 1987 just before the worst crash since the 1930s? The answer is "Yes, the Dow was sky-high in all three instances."

And couldn't that be the case today? And again the answer is yes, today's market could be sitting on the edge of a precipice. And I guess all you can say is that it's all part of the fascination of the Wall Street game. At times, there's just no clear, perfect answer to the market puzzle. We just have to wait to see.

The question then arises, should we be guided simply by my Primary Trend Index and therefore be heavily in stocks because the Index remains in its bullish mode? Or should we heed the lessons of history and be largely in cash, because this market is selling at extremes of overvaluation?

My old friend, Joe Granville coined the market expression, "If it's obvious, it's obviously wrong." Which is another way of saying that if it's obvious, it's already been fully discounted in the price structure. The fact is that Wall Street is seldom surprised by anything that occurs (except for an act of God, at which time the market can be genuinely shocked, and when the market is shocked we see that rare phenomenon -- the panic).

Conclusion: So far the market has held up well in the face of the almost endless procession of economic horror stories that have emerged from this recession. Is the market wrong? Will the recession be the winner? It's going to take time to find out. In the meantime, as I've been saying, stocks are mighty expensive.

← **TWIN WEDGES:** John Carder just FAXED me this rather startling chart. It's a picture of two widely watched items, the Dow and gold, each going back 12 years.

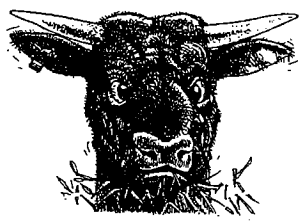
Now the startling thing about this chart is that it shows each item in a wedge pattern, the Dow in a rising wedge and gold in a declining wedge.

According to my old friend, John Magee (he of the classic book, "Technical Analysis of Chart Trends" by Edwards and Magee), **a rising wedge** such as the one we see in the Dow represents a pattern in which buying is slowly diminishing. Therefore, in due time the price action in a rising wedge can be expected to break down below the lower trendline of the wedge.

On the other hand, a **declining wedge** carries the opposite connotation. A declining wedge is a pattern that implies a slow drying up of selling. In due time the selling ceases, after which the price movement can be expected to break out of the wedge to the upside.

Whether the Dow and gold will follow the script remains to be seen. But I thought these charts were so fascinating that I wanted to bring them to the attention of my subscribers.

INVESTMENT POSITION: The bull remains in the box. Personally, I'm still sitting with a few closed-end funds that I've held for years, but 80% of my position is in short-term money instruments (T-bills, muni cash funds) and 10% is in gold items. With bonds now well off their highs and with long rates going higher, the dollar has picked up some strength. Long term, I don't know how the dollar is going to hold together, but for now it looks all right.



My bond Summation Index (based on bond breadth) has turned bearish. Bonds may hold the key to what's coming up. Bonds are sensitive to inflation, deflation, deficits -- and political stupidity (of which Washington has an endless supply). So far the stock market has been trading off declining interest rates. If bonds sink into a bear trend (producing rising rates), watch out. What would knock bonds down? Deficits, and nobody produces 'em like Uncle Sam.

I feel that this is a time to adhere to Russell's first rule which states, "Above all, don't lose money." My way of obeying that rule is to be largely in cash. I'm patient, and a Dow yielding 3.09% and selling at 29 times earnings has never appealed to me.

1949: A few weeks ago (October 20) the *NY Times Sunday Book Review* featured a new book, "Little Man" by Robert Lacey. It's the story of Meyer Lansky, the famous (or I should say infamous) international gangster (he was the model for Hyman Roth in "The Godfather II" movie). The book brought back a lot of memories.

When I got out of the Air Force in 1945 I immediately signed up at NYU to get my degree. Most of my old high school friends had disappeared or had moved or were away at school. Having just returned from combat in Italy and N. Africa, I was still freaked-out and pretty wild. And I needed friends badly. So I began hanging out on Broadway with some of my neighbors, guys from the West Side of mid-town Manhattan. They were a tough and varied bunch -- some losers, some winners. There was Carmine Longobardi. He was a weight lifter with arms like loaves of bread. Carm was scared of only one person, his father. There was my good buddy and ex-Marine Wayne Marcus, who had a seat on the NYSE. (his father owned three seats). Wayne once saved my life when I was jumped by two bar-fighters in a bar on Broadway at 85 Street (we beat them). There was Joe Spector, whose father was the yam king of the lower Manhattan produce markets (Joe once bit a guy's ear off in a fight). There was Whitey Taylor, a big Irish kid who could tell the best Jewish jokes with the best Jewish accent I've ever heard. There was Jerry Hellman, a tough super-bright little guy and a hell-raiser. Jerry is now a well-known movie producer, living in the Malibu beach colony. There was weird, skinny Henry, and nobody knew exactly what he did. There was blonde Jimmy, who used to drop Benzedrene in his cokes and get very crazy. There was Irwin Abey, whose father owned the biggest string of dry cleaners in the City (he was as nutty as a loon, and would tear around Broadway in a big, black Cadillac).

And there was Dickey Schwartz, a small, barrel chested, extremely handsome kid. Dickey's mother was married to Meyer Lansky, which made Dickey Meyer Lansky's stepson. Dickie fancied himself a prize fighter, and in 1949 he entered the Golden Gloves. We all went down to see Dickey's first fight. His opponent was a tough looking black kid with mean eyes. Dickey entered the ring, danced around, going through a few of his fancy moves. The black kid looked bored. As Dickey did his graceful dance, we all started shouting and clapping -- the fact was that Dickey looked sensational. Dickey was also a showboat. He turned to wave at us. In an instant the black kid threw a thunderous right and knocked Dickey cold.

Some of the guys knew Bugsy Siegel (Bugsy was a boyhood pal of Lansky's), and when spring came they would hitch-hike out to Las Vegas to get jobs as bus-boys or bell hops at Bugsy's Flamingo hotel. I never went. I was too busy getting through college. Besides, I had hitch-hiked down to Virginia Beach with my friend, Jay Pack, and we had been stranded on the road for eight hours in Pennsylvania. I had had enough of hitch-hiking.

A few years later, after I was married, I lost track of most of the guys. I still read about Jerry Hellman and his latest film ("Mosquito Coast"), and I occasionally talk to my old pal, Wayne Marcus (Wayne's brother, Julie, also a good friend of mine, died on the floor of the NYSE a few years ago).

As for Dickey. You can read about him in the new Meyer Lansky book. Dickey owned a restaurant near Miami. One night he got in an argument with a guy over a ten dollar debt. Dickey and this guy had both been drinking. In the midst of the argument Dickey suddenly pulled out a gun and shot the guy dead. The fellow Dickey shot had connections, evidently Mafia connections, and you don't shoot one of the wiseguys without an OK from higher up. As Meyer Lansky put it (according to the book), "It was the beginning of a very bad thing." Lansky knew what was coming. Lansky wanted Dickey to stay in jail where he was safe, but being bull-headed, Dickey wouldn't listen. So out he went on bail. One day in broad daylight as Dickey parked his car at the restaurant, somebody walked up with a shotgun and put a blast through the windshield of Dickey's car. The load hit Dickey full in the chest. He died instantly. Nobody in the area admitted to having seen or heard anything. The murder, which occurred in 1977, remains unsolved.

The other day I looked at a 16mm movie I had taken of the gang back in 1949 at the beach. All the guys were waving at the camera, Dickey was jumping up and down, making crazy faces, being a showboat as usual. I looked long and hard at that movie. Time passes. And as the Bible says, "it is not given to man to know his fate."

NOTES & QUOTES: Last year 34 states followed the federal government's example and raised taxes. The result is that combined local, state and federal taxes took 22.3% of individual income, an all-time high. The Tax Foundation states that as a result of the Bush tax boost, "taxpayers were stuck with $164 billion in new taxes and will only get for their trouble a higher tax burden, higher spending, record deficits and a national debt of heroic proportions."

* *

The California picture keeps getting worse. Despite a massive hike in taxes and extensive budget cuts to cover a $14.3 billion state deficit, it now turns out that the deficit this year will still be around $3 billion. Furthermore, there will be big deficits next year. On top of that, Oakland has suffered a $1.5 billion disastrous fire. What do they say, "It never rains but it pours.". . . The Oct. 16 *NY Times* front-page story tells us that the young and adventurous (and those who are just plain fed-up) are moving out of California. Favored states for those exiting are Nevada, Washington (both no-income tax states), Oregon, Arizona and no-income tax Florida in that order. One fellow described in the article moved to Sparks,

New budget deficit could hit $6 billion

CALIFORNIA FACES THE GOODBYE WAVE

State lawmakers urged to tackle 'deepening crisis

Frenzied growth and runaway costs are tarnishing the Golden State. More are moving out. But America's trendsetter may yet show others how

State facing fiscal abyss, Assembly told

Special session may be called to handle looming deficit, fire

By DANIEL C. CARSON, Staff Writer

SACRAMENTO — State lawmakers, faced with a new estimate of a $6 billion budget shortfall and pleas for assistance for victims of the disastrous East Bay fire, now appear likely to return in the Capitol for a special session possibly by mid-November.

Nevada (outside of Reno) where he bought a house located just five minutes from work for $98,000. He said a comparable home in Orange County would cost him three times as much. "We love it up here," he said, "There's no the traffic, there's no smog. I haven't been on the freeway for months."

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Hollywood is in the dumps. Those huge stars' salaries, declining attendance receipts and higher costs are taking their toll on the studios and the theaters. The summer season was bad (box office receipts off 11% from last year), and August and September box office attendance was the worst in 23 years. Said Tom Pollock, Chairman of MCA, "Look, there's a finite pool of talent. More movies are being made than there are talented people to make them. That results in a dilution of quality." David Geffen, a major power broker and reputedly the richest man in Hollywood said, "It's a continual slide. The audiences have become trained to accept less and less because of television. The material available is not very good and the quality of writing has declined. Everything is overpriced -- the actors, the directors, the movies. There's the stupidity of the studios who don't say, 'Enough is enough.' They're afraid. That's the prevailing emotion now -- fear."

CBS is losing an estimated $275 million on its four year Major League baseball contract and ESPN is expected to lose $40 million as its share. CBS, ABC and NBC are facing losses on their two-year contract with the NFL. Barry Frank, who heads the world's largest producer of independent sports programming says, "I thought it would be over by spring of 1992, but I was wrong. I think '92 will be worse than '91. I don't see any positive signs of anything getting better, and I see the networks continuing to have a tough time." Russell comment: When the contracts come up for renewal next year the offers from the broadcasters will be lower. That's going to put a squeeze on the teams' finances, and in turn the owners will have to get tough on players' salaries. It's all going to be very interesting with the owners looking increasingly at pay-per-view TV (which the public may not go for at all).

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Being in this business for 33 years, I've garnered subscribers from about every nook and cranny of this planet. And one of the fascinating things about the business is that I receive many personal stories from subscribers, some of them tragic, some triumphant. You think it's marvelous living on a tropic isle? Here's a letter received last week from a subscriber. "Dear Mr. Russell, Hurricane Hugo devastated the island of St. Croix, US Virgin Islands where we lived. Our home was destroyed, and our insurance company folded. The local government is supposedly trying to get some money for all the people who were with the insurance company. But it's been two years now since the hurricane and no action. We sailed our sailboat to another island and tied up in a mud creek in the mangroves and stayed on the boat during the hurricane.. After the hurricane we sailed to Florida where we live now. We certainly look forward to receiving your Letter. RBC, Palatka, FL."

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Uh oh, here's another letter I just received from a subscriber from Spokane, Washington. "Dear Mr. Russell, Thank you for the Letters. Keep up the good work, and please forget about telling others about the quality of life in the Northwest. Our winters are terrible and the barometric changes are the most severe of any area in the world. Yes! We lived in Poway (California) and profited from the wild '80s, before moving here in 1987. Signed, C.C." Russell comment: OK, I'll cool it about the Northwest. We'll keep the US's most prosperous area under wraps, lest Washington and Oregon end up like the Golden State.

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One of the hottest items on Wall Street today is trading foreign loans (bonds). Once scorned by Wall Street, a base for big profits for the trading desks is now the junk (sovereign) bonds of less-developed countries. George Salem, an analyst for Prudential Bache states, "It's gone from being a pain in the income statement to being a big contributor." Salem estimates that J.P. Morgan (one of the biggest traders of developing countries debt) bought and sold about $16 billion of this debt and will have about $150 million in capital gains this year to show for it. Manufacturers Hanover started a trading unit for LDC bonds in 1986 with two people in the department. Now they have 21 in New York, London and Tokyo and expect to trade $25 billion this year in the bonds. Some of the country's bonds (Mexico, Argentina, Chile) have even moved up a step in terms of ratings and investor acceptability.

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The word is that the Japanese are getting fed up with the US, and they have coined a new word, "Kenbei," which means dislike of the US. Said Atsuyuki Sassa, former national security director for Japan, Americans are "still intoxicated with a war-victory mood, although they've done very little to overcome economic stagnation, drugs, declining schools and other problems." States Seizaburo Sato, Professor of Political Science at Tokyo University, "There is a growing concern in Japan over the decline of American work ethics, moral principles, the quality of American products." For what it's worth, that seems to be the way the sentiment is going in Japan.

In Japan, Scorn for America

■ Some see a nation that has fallen from grace. Others express open contempt. Gut-level dislike of the U.S. is now common enough that the Japanese have coined a word for it.

By LESLIE HELM
TIMES STAFF WRITER

TOKYO—"As a Japanese coming from the Land of the Sun that boasts such works as 'The Tale of Genji,' I have nothing but contempt for America," says Toshiro Ishido, a popular movie script writer.

Akiyuki Nosaka, a famous novelist, calls America a country of "refugees, a nouveau riche country." Looking at the United States, he says, is like watching "a test run for the decline of the human race."

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The new season is not shaping up as a winner for US auto makers. For the first third of October the Big Three domestic automakers were down 14.3%, while Japanese automakers reported a 36.8% gain. Would-be buyers are suffering from sticker-shock with GM's prices up an average of 3.1%, Ford up 3.7% and Chrysler up 1.4%. Meanwhile, Chrysler CEO Lee Iacocca warned that "People are afraid of losing their jobs and they're not dipping into their savings." He warned that if the current recession continues much beyond the beginning of 1992, the US could "slip into depression."

The Japanese share of the US car market is now 34% and moving up. Europe limits Japanese car companies to 16% of the European market. The US has no limits on the number of cars the Japanese transplants can produce here.

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Speaking of cars, last week I took a trip down to the San Diego Auto Museum in Balboa Park. This fine museum has dozens of beautiful classics, and I was particularly fascinated by the great cars of the 1920s and '30s including the huge Hispano Suiza, giant Mercedes limos, Isotto Franchinis, Dusenburgs, fabulous Rolls Royces and a massive one-of-a-kind Buick made for Buick's CEO. If you live here or if you visit San Diego, don't miss the Auto Museum -- it's a treat, and it will take you back to the days when America produced many of the world's great cars.

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Charles Allmon, Editor and Publisher of *Growth Stock Outlook* is a thinker as well as an experienced investor, and in his latest mailing he talks about "conventional wisdom and growing complacency." Allmon writes that "Today's growing conviction that some kind of new era has dawned reminds us of 1987, 1972 or 1968." Allmon then lists some of what he terms "today's conventional pearls of wisdom."

Cash is the least attractive investment today.
Pension fund money must invest their river of cash somewhere, most likely in common stocks.
Buy on weakness. Any market decline will be contained within 8%-10%, offering great investment bargains.
Even lower interest rates lie ahead.
Inflation is just about dead.
Always hold stocks for the long term and ride the roller coaster, even at the risk of seeing your favorites decline 50% or more.
Small cap stocks offer outstanding opportunities regardless of market liquidity risks.
Such and such guru fund manager is fully invested, and we are fully invested too.
Gold is dead as an investment.
The government won't let disaster happen at the banks, insurance companies, credit unions, etc.
Long term investing is virtually bulletproof.

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On Sept. 7 NYC passed a law banishing street peddlers. As to the T-shirt salesmen, the Senegalese watch salesmen, the handbag, book and sweaters peddlers, they should be history before long. I remember the days when Fifth Avenue was the jewel of the nation's retailing business. That was before beautiful Fifth Avenue was cluttered with carts, stands, boxes and a tattered army of outdoor vendors. Said Ralph Destino, CEO of Cartier Inc., referring to the new look following Sept. 7, "The difference is dramatic. It is overwhelming. We are definitely headed in the right direction."

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Speaking of NYC, its hotel prices are generally outrageous, but there are some bargains. They are the Saint Moritz-on-the-Park, the Paramount, the Barbizon, the Wales, the Journey's End. Personally, I'd pick the Barbizon as a premier bargain.

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Well, Clarence Thomas is our new Supreme Court member. I didn't think he was qualified, and I still don't. As for the harassment hearing, the White House evidently issued orders to destroy Anita Hill (who I thought was a totally credible witness). I thought Thomas' bullying resort to charges of racism and "high-tech lynching" was outrageous. Frightened Senators bent over backwards to avoid any hint of racism, but Thomas thundered and raged about black stereotypes.He knew how to scare hell out of the Senators -- to the point where eleven Southern Democrats voted for him, probably out of fear that they would be branded as racists if they voted "No." How about corroborating witnesses for Anita Hill? A private deal kept Angela Wright from tesitfying nationally. Thomas received the biggest negative vote from Senators of any confirmed candidate in history. But now he's in, and as my daughter Daria put it, "Anita Hill waited too long before bringing up her charges, and even if her charges are true, maybe Thomas has changed by now." I hope she's right (but I still think Thomas is a liar). Oh yeah, one more thing. Women's groups across the nation feel they've been railroaded by the Senators, particularly those eleven Southern Dems. And the women vow that those Dems have seen their last terms in office. Women are beginning to express their resentment of male-dominated America. And they are going to express it with votes.

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The Fall months of this year will see whether there will be a United States of Europe or not. The EC leaders meet in early December in the Dutch city of Maastricht. At the end of '92, Jacques Delors, who almost alone revived the idea of a European union, will step down. Whether another strong man will take over, remains to be seen. The feeling is that unless the Maastricht meeting builds up momentum, the whole concept could begin to run out of steam.

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I'll admit it, I like gossip. And the feast has arrived. Liz (Smith) now has a daily column in the *LA Times* and Suzi now has a big column (often a page) in *Women's Wear Daily* . And all those juicy quotes. Example from Liz's column Oct. 17. "I know nothing about sex, because I was always married" says Zsa Zsa Gabor.

* *

Like Saddam Hussein, AIDS is largely forgotten or ignored. Only once has President Bush spoken publicly about the disease. Yet in the last 10 years AIDS has killed 120,000 Americans, and it will kill another quarter of a million Americans in the next two years (that's right, two years). Roughly one million Americans are currently infected with the virus.

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William Seidman has had enough. He's leaving his job as head of the FDIC and the Resolution Trust Co., and his parting words are that the $70 billion that Bush's guys have requested to cover bank failures is not going to be enough. Seidman is going to some place easier -- to CNBC/FNN next week as chief commentator, pontificating on business issues. Seidman is an honest guy, so I, for one, will be interested to hear what he's got to say (although I'm not sure the Administration will).

* *

Australia's got its BIG bankrupts, the most prominent of which is Alan Bond. He owes bankers billions. Bond told bankers that he's broke, down to only one asset, his Rolex. The bankers took the watch. The Australian authorities are particularly angry at some borrowers who show up in Rolls Royces while claiming that they can't pay back what they owe.

* *

When companies feel the profit squeeze, they move to cut overhead. One way of doing this is firing employees they can survive without. Since July 29, the ISI Group has counted 54 large firms that have handed out pink slips including Time-Warner, Union Pacific, Tenneco, Marine Midland, John Deere, Union Carbide, Amer. Express, Amoco, Raytheon, Westinghouse, RJR, Boeing, Exxon, Sears, IBM, and on and on.

* *

Limited terms for Congress is an idea I've been talking about for years. I think Congress is a scandal, and evidently the rest of the nation is finally coming around to agreeing with me. The arguments against limited terms are (1) a lot of good people will go. (2) New inexperienced people will come in, and in the end a bureaucracy of entrenched assistants will be running the country. My opinion -- if some good men have to go, so be it. It'll be worth it to get the "old boy network" out. Besides, the old "experienced" boys have made a total mess of this nation, and I can't believe that new people can do any worse. Finally, I believe that men and women who come in, knowing that their terms are limited, will be more apt to be patriots rather than the kind of self-serving, reelection-mad politicians that we have to put up with today.

* *

The enormity of the Bush miscalculation in allowing Hussein to remain in power is becoming more apparent by the day. Thousands of innocent Iraqis and their children are starving and dying. Hussein would much rather let them die than give up power. Furthermore, Hussein delights in showing the Arab world that he can not only survive but frustrate the US and its allies. In the end, only disaster can come in allowing Hussein to remain in power. Bush turns a blind eye to the picture. Every market veteran can tell Bush that he's following a fool's path. In the market, it's all right to be wrong. But it's fatal to STAY wrong. Bush is staying wrong.

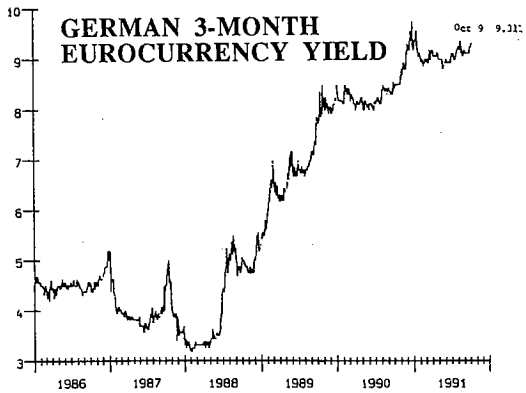
* *

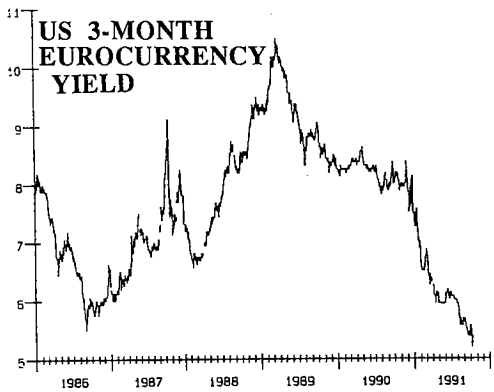
Two months after the Soviet coup failed, the Soviets are in disarray. No one knows who's in charge, reforms have stalled, and governments that want to help don't know who to deal with or even whom to give money to. Said Alexander Yakovlev, a senior advisor to Gorbachev, "I'm tempted to tell you the truth. No one is in charge."

* *

One of the big problems facing sophisticated investors today is the fluctuation in the various currencies plus the differentials in interest rates. The two charts on page 6 (courtesy of ISI Group, Inc.) illustrate the dramatic spread differentials between short-term rates in the US (where the Fed is fighting recession), and in Germany (where the central bank is fighting inflation). The spread on short rates is roughly 4% in favor of German short-term paper. The only question then is which way the dollar and mark?

As for that one, nobody has the ultimate answer. The certainty is the current spread in favor of the mark. The uncertainty is the future currency risk. Of course, one could buy German paper and figure that he has a 4% cushion. If the mark starts to decline strongly against the dollar, the holder of German paper could





always bail out. Conversely, if the market advances the US holder of German paper has a double-whammy -- a 4% interest rate advantage plus currency appreciation.

I include these comments because you seldom see such a dramatic interest spread in two major currencies. One problem in holding German paper -- Germany's economy is slowing down, and this could mean lower rates in Germany. Lower rates could exert downside pressure on the mark as well as downside pressure on all short-term German debt-paper. Nevertheless, over the next six months I would bet on short-term German paper to offer the better total return.

* *

Now that the economy is in the tank, various Democrats are beginning to think they have a chance to beat George Bush. Jerry Brown's really mad, and he has been giving both parties hell (actually, I agree with most of what he's saying). Governor Cuomo (as usual) has everybody guessing about what he'll do (the Gov says he'll do whatever the party wants him to do, which probably means he's going to run -- when he's ready). Billy Jack is running, and that's fine with me. If the election looks close (and Bush's ratings are dropping weekly) then Vice President Dan is going to be a real liability. It will be interesting to see what Bush does. One of my favorite cartoonists has an idea of what Bushie will do, and I couldn't resist putting this cartoon in the Letter.

GOLD, DOLLARS: Gold is a store of value. Over the decades gold has tended to hold its purchasing power, and this is proved by the oft-told story of gold and men's suits. In the 1930s I could buy a suit for $40 which is what a one ounce gold coin was worth at the time (even though the government had fixed the price of gold at $35 an ounce). Today a one ounce gold coin is worth $375, and I can still buy a good suit for an ounce of gold.

The dollar over the years has collapsed in value. The dollar is subject to a number of forces, not the least of which is inflation. Over the long term the massive compounding US deficits must either be inflated away or the US will slump into a vicious, debt-induced depression. Either way, the dollar's future is in grave doubt, and international investors are only too aware of this.

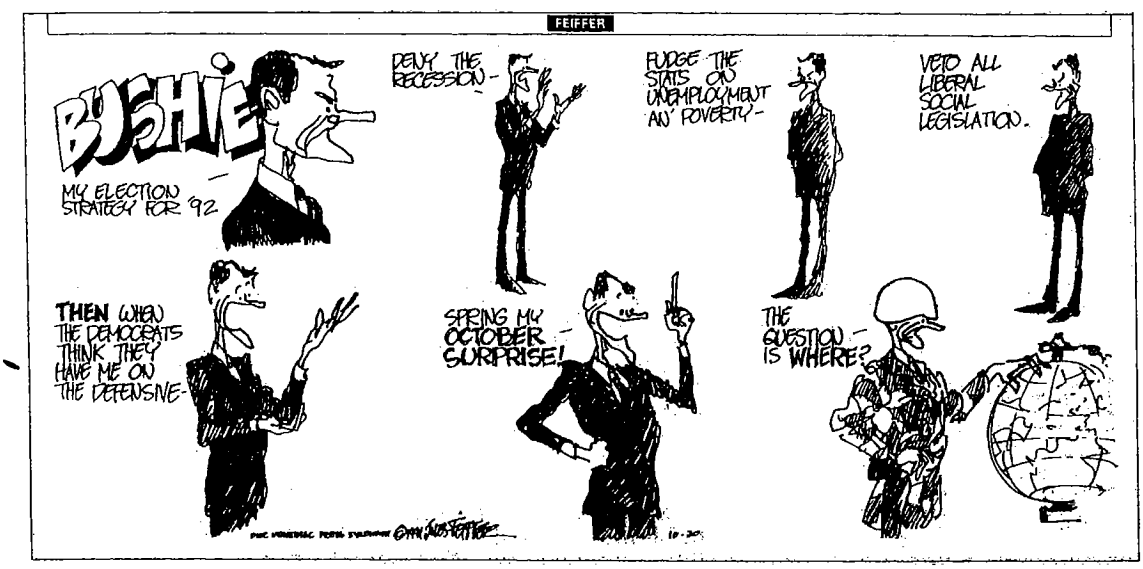
But over the near term the dollar, on a purchasing power parity basis with other currencies, is cheap. I just had lunch with a good friend of mine two days after he had returned from London and Paris. The prices there, he told me, were "wild." For instance, he and his wife had very fine dinners in a "fairly modest" restaurant in Paris. The tab for two was $100. Two comparable dinners in a comparable restaurant in the States, he said, would run about $50. In other words, the dollar and what it will buy here in the US is a bargain.

So that's the picture. The dollar is "cheap" but the dollar is the currency of a nation that is deeply in debt and going more so, a nation that is mis-managed and is now in recession.

The alternative, the "insurance" for the average investor, is to diversify into other currencies (most of which pay higher rates of interest) or to hold gold or do both. Problem: over the long haul no one knows which currencies will hold up or which nation may run into trouble. Thought: if Europe comes up with a single currency (and I believe it will), then at some point, if the US continues to run massive deficits, the dollar may become an unwanted currency, an "outcast" currency. It could happen.

For this reason, I feel that every portfolio should have gold if for no other purpose than insurance. There is one sure thing in the world of money, and it is that gold will always possess value. Furthermore, history suggests that gold tends to hold its purchasing power.

Thus the average investor should hold 5% or 10% of his assets in gold. The alternative would be for the investor to trade currencies, trying always to stay in the strongest currency, and meantime picking up interest in the various currencies. My only objection here is that the average person is not equipped to trade currencies successfully. It's not easy, as any currency trader will tell you.


FEIFFER
BUSHIE
MY ELECTION STRATEGY FOR '92
DENY THE RECESSION -
FUDGE THE STATS ON UNEMPLOYMENT AN' POVERTY -
VETO ALL LIBERAL SOCIAL LEGISLATION.
THEN WHEN THE DEMOCRATS THINK THEY HAVE ME ON THE DEFENSIVE -
SPRING MY OCTOBER SURPRISE!
THE QUESTION - IS WHERE?

LATE NOTES: (1) This market is as expensive as any I've seen in a long time. (2) Speculation in the bio-tech stocks has been wild and wooly. (3) Everybody and his brother now owns bonds, but my Bond Summation Index has now turned bearish. (4) My PTI remains in its bullish mode. (5) George Bush now concedes that things aren't as good as he's been saying they are. (5) So -- let's see what happens next.

NEXT MAILING:
Nov. 13